

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF ULICE BUD RIFE, JR., AND JOHN M. BRADLEY AND DEBBIE L. BRADLEY FOR THE APPROVAL OF THE ACQUISITION OF B & H GAS COMPANY, INC. OF STANVILLE, FLOYD COUNTY, KENTUCKY, BY ULICE BUD RIFE, JR.	)	
	)	
	)	CASE NO.
	)	89-018
	)	
	)	

O R D E R

On January 24, 1989, John M. and Debbie L. Bradley (the "Bradleys"), owners and operators of B & H Gas Company, Inc. ("B & H") and Ulice Bud Rife, Jr. filed a joint application for approval of the sale of B & H to Mr. Rife. The terms of the proposed transfer were set forth in the Sales Agreement signed by all the parties and attached as an exhibit to the application.

By Order dated February 23, 1989, B & H was requested to provide additional information regarding the proposed transfer. The acquiror, Mr. Rife, responded to the information request on March 7, 1989. Mr. Rife and Commission Staff met on March 21, 1989 in an informal conference to discuss certain aspects of B & H's filing and current operations. At that time Mr. Rife executed a waiver of the 60 day period for Commission action required by KRS 278.020(5).

Mr. Rife is the current owner of Bradley & Son Oil & Gas Company ("Bradley & Son") which supplies approximately 70 percent of B & H's gas. Mr. Rife should be aware that after the transfer

in this case is approved B & H and Bradley & Son will be considered affiliated companies as defined by KRS 278.274(3)(a) and accordingly, purchase gas transactions between the two will be closely scrutinized and Bradley & Son will be regulated by this Commission to the extent set forth in KRS 278.274(3).

After reviewing the evidence of record and being sufficiently advised, the Commission is of the opinion and finds that:

1. B & H, a corporation organized under the provisions of Kentucky Revised Statutes, operates a natural gas distribution system in Stanville, Floyd County, Kentucky. It is, therefore, a utility as defined by KRS 278.010(3).

2. The Bradleys, owners of record of B & H, and Mr. Rife have executed a Sales Agreement with respect to Mr. Rife's purchase of all B & H assets.

3. The record reflects that Mr. Rife has financial resources sufficient to purchase B & H; that Mr. Rife successfully manages a small business presently; that Mr. Rife intends to use the services of a CPA and other experienced personnel to assure continued operation of B & H; and that Mr. Rife has been employed in the natural gas industry for a number of years and is familiar with the technical aspects of natural gas utilities.

4. Pursuant to the USOA, the following journal entries should be made to effect the purchase of B & H:

	<u>Dr.</u>	<u>Cr.</u>
Plant Purchased or Sold	XX	
Long-Term Debt		XX
To record purchase price of B & H		

Utility Plant in Service	XX	
Plant Purchased or Sold		XX
To record plant at original cost		
 Plant Purchased or Sold	XX	
Accumulated Depreciation		XX
To record accumulated depreciation on original cost of plant		

Any amounts in the acquisition adjustments accounts on the books of B & H at the time of purchase shall also be transferred to the new books through the plant purchased or sold account. Any balance remaining in the plant purchased or sold account shall be adjusted to the acquisition adjustment account.

Based on a review of financial reports on file with the Commission, it is clear the USOA was not followed in 1986 when the Harmons acquired B & H. Due to the improper accounting of the Harmon transfer, the utility plant accounts have been carried at a value above the original cost. Pursuant to the USOA, the utility plant accounts should be maintained at the original cost at the time the assets are first put into service, and depreciation should also be calculated based on the original cost. Using the above entries, B & H should correct its books to bring these accounts to their proper balances prior to effecting the present transfer to Mr. Rife.

In future rate proceedings, the burden of proof will be on B & H to show that it is in the public interest to allow amortization of the acquisition adjustment. B & H will also bear the burden of proof to show that it is in the public interest to allow interest charges on debt that exceeds those charges which would

have been incurred to finance the original cost of plant excluding any acquisition adjustment.

IT IS THEREFORE ORDERED that:


1. The proposed sale of B & H from the Bradleys to Mr. Rife be and it hereby is approved.

2. The journal entries and accounting treatment prescribed by Finding 4 above shall be followed to reflect the transfer, original plant valuation, and certain acquisition adjustments.

3. B & H and Mr. Rife shall file documentation showing the journal entries as specified above within 60 days of the date of this Order.

Done at Frankfort, Kentucky, this 17th day of May, 1989.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director